

THE AMERICAN PROSPECT, INC.

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011



THE AMERICAN PROSPECT, INC.

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Statements of Financial Position June 30, 2012 and 2011	2
Statement of Activities For the year ended June 30, 2012	4
Statement of Activities For the year ended June 30, 2011	5
Statement of Functional Expenses For the year ended June 30, 2012	6
Statement of Functional Expenses For the year ended June 30, 2011	7
Statements of Cash Flows For the years ended June 30, 2012 and 2011	8
Notes to Financial Statements June 30, 2012 and 2011	9





Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants

Board of Directors
The American Prospect, Inc.
Washington, District of Columbia

Independent Auditors' Report

We have audited the accompanying statements of financial position of The American Prospect, Inc. as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of The American Prospect, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The American Prospect, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

February 22, 2013

Feeley & Driscoll, P.C.

THE AMERICAN PROSPECT, INC.

Statements of Financial Position

June 30, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 638,245	\$ 92,285
Accounts receivable, net of allowance for doubtful accounts of \$25,491 in 2011	128,926	116,998
Contributions receivable	514,333	113,845
Prepaid expenses	8,116	127,276
Total current assets	<u>1,289,620</u>	<u>450,404</u>
Property and equipment:		
Computer software	179,724	162,408
Computer hardware	84,285	84,285
Leasehold improvements	47,675	32,376
Furniture and fixtures	38,204	38,204
	<u>349,888</u>	<u>317,273</u>
Less accumulated depreciation and amortization	<u>256,771</u>	<u>228,182</u>
	<u>93,117</u>	<u>89,091</u>
Other assets -		
Security deposits	<u>40,240</u>	<u>40,240</u>
Total assets	<u>\$ 1,422,977</u>	<u>\$ 579,735</u>

See accompanying notes.

THE AMERICAN PROSPECT, INC.

Statements of Financial Position - Continued

June 30, 2012 and 2011

Liabilities and Net (Deficit)

	<u>2012</u>	<u>2011</u>
Current liabilities:		
Deferred subscriptions	\$ 309,127	\$ 336,212
Accounts payable	202,853	412,886
Accrued expenses	144,180	140,483
Current portion of loan payable	100,000	56,250
Due to affiliate	78,072	-
Total current liabilities	<u>834,232</u>	<u>945,831</u>
Long-term liabilities -		
Loan payable, net of current portion	<u>970,000</u>	<u>556,250</u>
Net (deficit) assets:		
Unrestricted	(948,755)	(957,346)
Temporarily restricted	<u>567,500</u>	<u>35,000</u>
Total net (deficit)	<u>(381,255)</u>	<u>(922,346)</u>
Total liabilities and net (deficit)	<u>\$ 1,422,977</u>	<u>\$ 579,735</u>

See accompanying notes.

THE AMERICAN PROSPECT, INC.

Statement of Activities

For the year ended June 30, 2012

	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
Grants	\$ 1,471,753	\$ 372,497	\$ 1,844,250
Contributions	1,378,338	195,003	1,573,341
Subscriptions	326,472	-	326,472
Advertising	234,068	-	234,068
Mailing list sales	28,761	-	28,761
Newsstand sales	5,683	-	5,683
Miscellaneous revenue	134,693	-	134,693
	<u>3,579,768</u>	<u>567,500</u>	<u>4,147,268</u>
Net assets released from restrictions -			
Satisfaction of donor restrictions, operations	35,000	(35,000)	-
	<u>3,614,768</u>	<u>532,500</u>	<u>4,147,268</u>
Total revenue and support			
Expenses:			
Program expenses	3,047,685	-	3,047,685
Management and general	459,380	-	459,380
Fundraising expenses	99,112	-	99,112
	<u>3,606,177</u>	<u>-</u>	<u>3,606,177</u>
Total expenses			
Change in net assets	8,591	532,500	541,091
Net (deficit) assets, beginning of year	(957,346)	35,000	(922,346)
Net (deficit) assets, end of year	<u>\$ (948,755)</u>	<u>\$ 567,500</u>	<u>\$ (381,255)</u>

See accompanying notes.

THE AMERICAN PROSPECT, INC.

Statement of Activities

For the year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
Grants	\$ 262,991	\$ 1,654,250	\$ 1,917,241
Subscriptions	312,117	-	312,117
Advertising	168,744	-	168,744
Contributions	163,412	-	163,412
Mailing list sales	28,078	-	28,078
Newsstand sales	9,814	-	9,814
Miscellaneous revenue	87,728	-	87,728
	<u>1,032,884</u>	<u>1,654,250</u>	<u>2,687,134</u>
Net assets released from restrictions -			
Satisfaction of donor restrictions, operations	<u>1,769,250</u>	<u>(1,769,250)</u>	<u>-</u>
Total revenue and support	<u>2,802,134</u>	<u>(115,000)</u>	<u>2,687,134</u>
Expenses:			
Program expenses	2,292,994	-	2,292,994
Fundraising expenses	305,268	-	305,268
Management and general	264,403	-	264,403
Total expenses	<u>2,862,665</u>	<u>-</u>	<u>2,862,665</u>
Change in net assets	<u>(60,531)</u>	<u>(115,000)</u>	<u>(175,531)</u>
Net (deficit) assets, beginning of year	<u>(896,815)</u>	<u>150,000</u>	<u>(746,815)</u>
Net (deficit) assets, end of year	<u>\$ (957,346)</u>	<u>\$ 35,000</u>	<u>\$ (922,346)</u>

See accompanying notes.

THE AMERICAN PROSPECT, INC.

Statement of Functional Expenses

For the year ended June 30, 2012

	Program Expenses	Supporting Services		Total
		Management & General	Fundraising	
Payroll and related:				
Salaries	\$ 1,247,979	\$ 140,009	\$ 58,057	\$ 1,446,045
Employee benefits	192,379	23,954	9,933	226,266
Total payroll and related	<u>1,440,358</u>	<u>163,963</u>	<u>67,990</u>	<u>1,672,311</u>
Magazine direct costs:				
Author fees and expenses	329,250	-	-	329,250
Publication expenses	290,859	-	-	290,859
Circulation expense	265,722	-	-	265,722
Photo/illustrations/art fees	117,595	-	-	117,595
Editorial contractor	405	-	-	405
Total magazine direct costs	<u>1,003,831</u>	<u>-</u>	<u>-</u>	<u>1,003,831</u>
Marketing, general and administrative:				
Occupancy costs	188,938	21,197	8,790	218,925
Travel expense	146,376	16,422	6,810	169,608
Partnership & Collaboration	98,750	-	-	98,750
Consultants	47,583	42,420	-	90,003
IT/telecommunications	41,926	38,793	309	81,028
Accounting and legal	-	71,776	-	71,776
Insurance costs	35,923	4,030	1,671	41,624
Printing	6,616	26,118	2,592	35,326
Depreciation and amortization	-	28,589	-	28,589
Bank Fees/taxes	4,164	20,542	208	24,914
Postage	4,743	6,843	7,174	18,760
Conference expenses	1,808	6,808	195	8,811
Supplies	6,972	782	324	8,078
Promotion and advertising	3,758	-	2,935	6,693
Repairs	-	3,787	-	3,787
Staff expense	728	-	-	728
Other program expenses	15,211	7,310	114	22,635
Total marketing, general and administrative	<u>603,496</u>	<u>295,417</u>	<u>31,122</u>	<u>930,035</u>
Total expenses	<u>\$ 3,047,685</u>	<u>\$ 459,380</u>	<u>\$ 99,112</u>	<u>\$ 3,606,177</u>

See accompanying notes.

THE AMERICAN PROSPECT, INC.

Statement of Functional Expenses

For the year ended June 30, 2011

	Program Expenses	Supporting Services		Total
		Management & General	Fundraising	
Payroll and related:				
Salaries	\$ 870,969	\$ 81,016	\$ 165,361	\$ 1,117,346
Employee benefits	149,012	13,861	28,291	191,164
Total payroll and related	<u>1,019,981</u>	<u>94,877</u>	<u>193,652</u>	<u>1,308,510</u>
Magazine direct costs:				
Author fees and expenses	308,445	-	-	308,445
Publication expenses	283,483	-	-	283,483
Circulation expense	215,192	-	-	215,192
Photo/illustrations/art fees	86,690	-	-	86,690
Editorial contractor	5,655	-	-	5,655
Total magazine direct costs	<u>899,465</u>	<u>-</u>	<u>-</u>	<u>899,465</u>
Marketing, general and administrative:				
Occupancy costs	130,137	34,368	51,666	216,171
IT/telecommunications	69,142	4,920	10,617	84,679
Travel expense	52,370	16,020	6,453	74,843
Accounting and legal	10,770	59,086	4,585	74,441
Insurance costs	32,869	1,327	3,091	37,287
Consultants	15,597	10,857	1,000	27,454
Conference expenses	10,541	5,259	6,592	22,392
Bank Fees/taxes	1,136	15,456	5,668	22,260
Depreciation and amortization	14,913	607	1,415	16,935
Postage	2,462	4,256	6,584	13,302
Promotion and advertising	3,120	643	5,340	9,103
Printing	363	3,770	4,705	8,838
Supplies	937	4,387	697	6,021
Staff expense	2,190	2,208	-	4,398
Repairs	-	3,135	-	3,135
Furniture/equipment	-	142	-	142
Other program expenses	27,001	3,085	3,203	33,289
Total marketing, general and administrative	<u>373,548</u>	<u>169,526</u>	<u>111,616</u>	<u>654,690</u>
Total expenses	<u>\$ 2,292,994</u>	<u>\$ 264,403</u>	<u>\$ 305,268</u>	<u>\$ 2,862,665</u>

See accompanying notes.

THE AMERICAN PROSPECT, INC.

Statements of Cash Flows

For the years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 541,091	\$ (175,531)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	28,589	16,935
Increase (decrease) in cash resulting from a change in:		
Accounts receivable, net	(11,928)	(44,863)
Contributions receivable	(400,488)	36,155
Prepaid expenses	119,160	(35,238)
Deferred subscriptions	(27,085)	(47,762)
Accounts payable	(210,033)	117,658
Accrued expenses	3,697	94,681
Due to affiliate	78,072	-
Net cash provided by (used in) operating activities	<u>121,075</u>	<u>(37,965)</u>
Cash flows from investing activities -		
Purchases of property and equipment	<u>(32,615)</u>	<u>(48,436)</u>
Net cash used in investing activities	<u>(32,615)</u>	<u>(48,436)</u>
Cash flows from financing activities -		
Proceeds from loan payable	<u>457,500</u>	<u>135,000</u>
Net cash provided by financing activities	<u>457,500</u>	<u>135,000</u>
Net increase in cash and cash equivalents	545,960	48,599
Cash and cash equivalents, beginning of year	<u>92,285</u>	<u>43,686</u>
Cash and cash equivalents, end of year	<u>\$ 638,245</u>	<u>\$ 92,285</u>

See accompanying notes.

THE AMERICAN PROSPECT, INC.

Notes to Financial Statements

June 30, 2012 and 2011

Note 1 - Organization

The American Prospect, Inc. (the "Organization") publishes a magazine, "The American Prospect", which contains scholarly and literary articles designed to educate the public on liberal philosophy, politics and public life. The Organization sponsors occasional conferences and workshops on subjects related to articles published in the magazine. The Organization also created and maintains an internet website for the purpose of educating the public on liberal philosophy, politics and public life.

The American Prospect, Inc. has an office in Washington, DC. The magazine is distributed throughout the United States and internationally.

The Organization's revenue sources are from grants and contributions received from private organizations and individuals, subscriptions to the publication of "The American Prospect" magazine, website, and advertising.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The financial statements of the Organization have been prepared using the accrual basis of accounting. The Organization reports information regarding its financial position and activities according to three (3) classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization's two (2) classes of net assets are further classified for display purposes as follows:

Unrestricted funds are available for support of operations.

Temporarily restricted funds represent unexpended grants subject to restrictions for use for a specific purpose or with the passage of time.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - The Organization considers all highly liquid investments purchased with an original maturity of three (3) months or less to be cash equivalents.

Allowance for Doubtful Accounts - An allowance for doubtful accounts is recorded to report accounts receivable at their net realizable value. Estimates for doubtful accounts are based on past collection experience together with a review of the current status of the existing receivables.

THE AMERICAN PROSPECT, INC.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies - Continued

Property and Equipment - Property and equipment are recorded at cost at the date of purchase or fair value at the date of contribution. Each asset's cost or fair market value is depreciated over their useful lives utilizing the straight-line method. The Organization's capitalization policy is to capitalize assets with a useful life of greater than one (1) year and the cost or fair market value exceeds \$2,500.

Depreciation and Amortization - Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets as follows:

<u>Assets</u>	<u>Life in Years</u>
Computer software	3
Computer hardware	3
Leasehold improvements	7
Furniture and fixtures	7

Grant Revenues - Revenues from private charitable organizations and other unrestricted grants and contributions are recorded as unrestricted revenue and net assets when received or unconditionally committed. Revenues from donor restricted grants and contributions are recorded as temporarily restricted revenue and net assets when the Organization receives a commitment.

Advertising Revenues - Revenue is received from different corporations and organizations seeking to advertise in The American Prospect magazine. Revenues from advertising are recognized when the magazine is distributed.

Deferred Subscriptions - Revenue from paid magazine subscriptions is deferred at the time the sales are made. As magazines are delivered to subscribers, revenue is included in income. Deferred subscription revenue is shown as a liability to represent subscriber receipts to be earned incrementally as each issue of the magazine is served.

Contributions - Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

THE AMERICAN PROSPECT, INC.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies - Continued

Functional Allocation of Expenses - Salaries are specifically allocated between program expenses, management and general, and fundraising. The related employee benefit expenses are allocated based on the percentage of specific salaries. Other remaining expenses are specifically allocated whenever practical, or are allocated based on salaries or space utilization.

Advertising - The Organization's policy is to expense advertising costs as they are incurred.

Federal Income Tax - The Organization is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. Donors may deduct contributions made to the Organization based on Internal Revenue Code regulations. Tax years from 2009 through the current period remain open for examination by federal and state tax authorities.

Subsequent Events - The Organization has evaluated subsequent events through February 22, 2013, which is the date financial statements were available to be issued.

Note 3 - Contributions Receivable

Contributions receivable consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Special issues	\$ 15,000	\$ 35,000
General support	499,333	78,845
	<u>\$ 514,333</u>	<u>\$ 113,845</u>

Estimated annual collections on contributions receivable are as follows:

Less than one year	<u>\$ 514,333</u>	<u>\$ 113,845</u>
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All contributions receivable are deemed to be collectible within one (1) year.

THE AMERICAN PROSPECT, INC.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 4 - Commitments

The Organization entered into a non-cancelable lease at 1710 Rhode Island Avenue, which commenced on August 1, 2008 and expires on August 31, 2018, with monthly rent of \$17,808. The Organization is required to pay additional rent at a rate of two and one-half percent (2.5%) after the first anniversary of the lease. Security deposits totaling \$40,240 were made upon the signing of the facility lease. Rent expense was \$218,925 and \$216,171 for the years ended June 30, 2012 and 2011, respectively.

On December 31, 2012, the lease agreement was amended to include monthly rental payments of \$22,808 through June 30, 2014 (retroactive to October 2012) and monthly rental payments of \$17,808 from July 31, 2014 through August 31, 2018.

The Organization commenced a lease for an office copier on August 1, 2008. Under the agreement, the Organization was required to pay monthly installments of \$230, through December 31, 2011. Lease expense was \$1,380 and \$2,760 for the years ended June 30, 2012 and 2011, respectively.

The Organization commenced a lease for a mail machine on October 1, 2009. Under the agreement, the Organization is required to pay monthly installments of \$41, expiring on December 30, 2013. Lease expense was \$492 for the years ended June 30, 2012 and 2011.

Minimum annual future rental payments are as follows for the year ending June 30:

2013	\$	265,889
2014		308,066
2015		265,397
2016		260,975
2017		267,500
Thereafter		<u>297,083</u>
Total	\$	<u><u>1,664,910</u></u>

Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30:

	<u>2012</u>	<u>2011</u>
Special issues	\$ 15,000	\$ 35,000
General support – time restricted	<u>552,500</u>	<u>-</u>
	<u><u>\$ 567,500</u></u>	<u><u>\$ 35,000</u></u>

THE AMERICAN PROSPECT, INC.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 6 - Loan Payable

During 2011, the Organization entered into an affiliation agreement with Demos. Demos is a New York non-profit organization which promotes progressive ideas through the publication of books, reports, articles, blogs, public forums and advocacy programs. As of June 30, 2012 and 2011, Demos loaned the Organization \$1,070,000 and \$612,500, respectively. The loan payable does not bear interest. Principal payments under the loan payable are due as follows for the years ending June 30:

2013	\$	100,000
2014		100,000
2015		125,000
2016		125,000
2017		150,000
Thereafter		<u>470,000</u>
Total	\$	<u>1,070,000</u>

Note 7 - Concentrations

The Organization receives a substantial amount of its operating revenue from private grants. If a significant reduction in the level of this support were to occur, the Organization's activities would be affected proportionately.

The Organization has a potential concentration of credit risk in that it maintains deposits with a financial institution in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The maximum deposit insurance amount is \$250,000 for interest-bearing accounts, which is applied per depositor, per insured depository institution for each account ownership category. Non-interest bearing transaction deposit accounts are provided unlimited insurance coverage through December 31, 2012. As of June 30, 2012, there was \$443,241 in excess of FDIC limits.